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SOVIET UNION

1. Comment on the 1953 Soviet budget:

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[redacted] For the first time since 1947 the Soviet budget, presented on 5 August, shows a decline in direct military expenditures. In contrast to 16 and 18 percent increases for each of the preceding two years, the 1953 military allocation is 3.2 percent below 1952. Nevertheless, direct allotments to the military, not including defense outlays hidden in other parts of the budget, are still more than one fifth of total expenditures.

The military capability of the Soviet Union since the war will not be significantly affected by this slight decrease in defense allotments, particularly since the drain of supplying armaments for the Korean war has ended.

A departure from previous budgetary practice is the unprecedented size, almost double, of undisclosed expenditures, amounting to about 16 percent of the total. In past years part of these outlays supported MVD and MGB administrations as well as government loans and reserve funds.

Capital investment has been raised by more than 9 percent and funds for heavy industry and agriculture show a sharper increase over the previous year than other parts of the budget. This indicates that the USSR will continue heavy stress on basic economic development which is imperative if the major 1955 economic goals of the current Five-Year Plan are to be realized. In comparison the new government is increasing consumer goods production but at a lower rate. To offset the effect of the April decree lowering the prices for agricultural goods, the budget calls for very sharp reductions in taxes levied on members of collective farms and also for the cancellation of all agricultural tax arrears.

2. Comment on absence of presidium member from Supreme Soviet meetings:

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[redacted] The only member of the top party presidium not present at the Supreme Soviet on 5 August was P. K. Ponomarenko, minister of culture and alternate member of the

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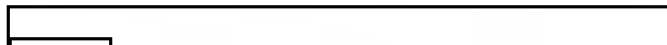
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presidium. Ponomarenko, who rose through party ranks to become a member from 1947 to 1953 of the important all-union Secretariat, was shifted after Stalin's death to the government position of minister of culture which includes responsibility for propaganda media.

While Ponomarenko's absence is not necessarily evidence of any fall from power, it recalls Beria's failure to attend the opera on 27 June. If he has been deposed, it should become clear after the last session which ratifies all ministerial shifts.

FAR EAST

3. North Korean purges attributed to corruption and inefficiency:



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top-level personnel changes during the past few months in North Korea are due primarily to corruption

and inefficiency. factionalism among Soviet, Chinese, and domestic Communist leaders is not a major factor.

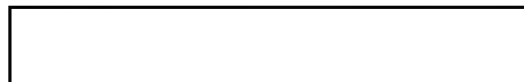
The officials ousted since February were all closely connected with political operations against South Korea and may have been purged for failing to infiltrate the Rhee government effectively. The new leadership may revitalize its penetration efforts and guerrilla warfare against South Korea.

It is believed that the pro-Soviet group, which has controlled North Korea since 1945, has never been seriously challenged. The appointment on 3 August of Nam Il as foreign minister is regarded as natural in the light of his solid Soviet background and the important role the foreign minister is destined to play in the forthcoming political conference.

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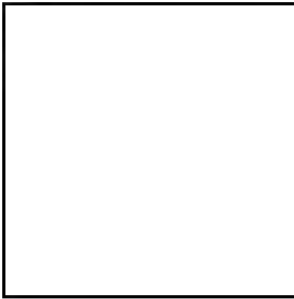
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4. Chinese Nationalists capture large Western-flag vessel:

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Nationalist naval forces intercepted the Italian freighter Marilu in the Formosa Strait on 31 July, [redacted] The 6,000-ton vessel, with its cargo of iron ore, silk and peanut cake loaded at Tsingtao and Shanghai, was reportedly escorted to Keelung, Formosa, on 6 August.

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Comment: This is the fifth Nationalist interception during July of Western-flag ships engaged in trading with the China mainland. It reflects a stepped-up campaign to harass such shipping, at least in the Formosa Strait. The four other vessels intercepted in July were small British coasters, as have been most of the 60-odd ships intercepted in the past three years.

WESTERN EUROPE

5. Opportunity seen to exploit Moscow inconsistencies on Austrian treaty:

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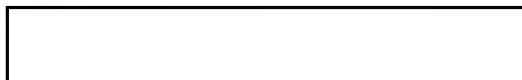
British and French officials in London believe that recent Soviet notes have at least provided the West an excellent opportunity to exploit obvious Soviet inconsistencies on the Austrian question. While Moscow in its notes of 29 and 30 July to Austria and the Western powers respectively held out the prospect of an Austrian settlement, the 4 August note openly ties such a settlement to "possible successes" in negotiations on Germany.

In the opinion of these officials, the West should reassert its opposition to linking the Austrian question with extraneous issues, and should also make clear that it is not committed to any specific text of an Austrian treaty.

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6. Comment on French strike wave:

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[redacted] The strike of public utility workers throughout France, which was initiated by non-Communist unions in protest against the government's announced administrative economies, threatens Premier Laniel's whole financial program.

The spread of the present work stoppages has been unexpectedly rapid because the Socialist-oriented Force Ouvriere has pressed strike action in order to preserve its leadership in its only important labor stronghold. The Socialists are determined to extend the gains made in the May municipal elections and exploit their role in opposition to the right-wing government's policies. The utilities have been slow in granting general wage increases and have long suffered from deep-seated labor unrest.

Efforts to prolong the strikes can be expected to fail because neither workers nor unions are financially prepared. Government concessions in the event of labor solidarity would hasten a cabinet crisis after parliament reconvenes on 12 October.

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[redacted]

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